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USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK  
DOE FOR CHARLES WASHINGTON  
EUR ALSO FOR MATT BRYZA  
S/P FOR STEVE HELLMAN

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [TU](#) [GG](#) [AZ](#)  
SUBJECT: TURKEY VIEWS ON GAS POTENTIAL FROM CASPIAN

Classified By: AMBASSADOR ROSS WILSON FOR REASONS 1.4 (B,D)

11. (C) Summary: Using the opportunity of Senior Energy Analyst Bud Coote's briefing to Energy Minister Hilmi Guler on Caspian oil and gas potential, Ambassador and S/P Energy Advisor Steve Hellman advanced southern gas corridor diplomacy. The Minister thanked Coote for clarifying what quantities of Azerbaijan and Caspian hydrocarbons may be potentially available for export to Europe via Turkey. Hellman - again - urged Turkey and Azerbaijan to meet ASAP to reduce uncertainty in the face of Russian pressure to stifle Azerbaijan's contractual export of cheap Shah Deniz I volumes to Georgia and Turkey. In addition, he urged the two countries and Georgia to meet soon to work together on meeting short-term winter needs and to reach a common approach for Shah Deniz I until Azerbaijan reaches gas independence and a reduction in Russian leverage. With respect to Turkey's long sought multi-lateral southern corridor meeting for all actors to lay out their plans, Hellman said the IEA convened meeting would be postponed to January to allow appropriate preparations for a successful meeting. Turkey is well aware of Moscow's pressure on Azerbaijan and Georgia. In a side conversation with Ambassador, Guler said Turkey is very worried about Russian behavior and its short- and long-term implications. He appealed for U.S. leadership and help. End Summary.

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Azerbaijan's Gas Potential - Catalyzing the Corridor  
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12. (C) Senior Energy Analyst Bud Coote gave two separate briefings on Azerbaijan and Caspian hydrocarbon potential: one for the Minister and senior staff and another for a larger inter-agency group of fifteen officials, including state pipeline company BOTAS and state oil company TPAO. TPAO Azerbaijan Projects Manager Tayfun Uzucu protested that Coote's (upside case) numbers for Azerbaijan reserves and production were overly optimistic. Hellman urged Turkey and TPAO to be more active in upstream oil and gas development, including Iraq and Turkmenistan, where Turkey would have greater linkages.

13. (C) The Minister noted many obstacles to realization of the southern gas corridor: Gazprom's close relationship with

Germany and Hungary; Gazprom's divide and conquer strategy with other Europeans, who lack common approach and initiative; European dalliance with Iran; and Italy's links with Blue Stream, to name a few. However, he noted that Coote's presentation was effective in lessening one previously identified obstacle: doubts about Azerbaijan's potential as a source of supply. Coote observed that Shah Deniz Phase II potential would be clearer with completion and analysis of the exploratory-appraisal SDX4 well, currently underway.

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Turkey is Open for Business - Next Steps  
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14. (C) The Minister called for the USG to be more visibly "present" and supportive of both a Bosphorus bypass and the southern gas corridor; i.e., active, not just an observer. He asked for a written proposal from the USG depicting an effective transit regime for Turkey. Hellman promised to provide this and called for Turkey to show that it is "open for business." One way to do this is for Turkey and Azerbaijan to meet soon to reach agreement short term on approach on Shah Deniz Phase I and longer term to establish an IGA for transit of Shah Deniz Phase II gas volumes, ultimately allowing Azerbaijan to strike a direct deal with Greece. Hellman stressed that this would show a clear signal to producers, consumers, and investors that Turkey was serious and not seeking to obstruct the corridor by buying and re-selling gas. Moreover, he stated that the market needed to Turkey to act as a leader in advancing the southern corridor.

15. (C) The Minister and Energy U/S Demirbilek were quite

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clear that Turkey does not seek to act like Gazprom; it wants knowledge of price of transited volumes and it wants a stake in the business. Stressing that Turkey was not greedy, they argued that Turkey could not just be the chauffeur; it needed some of the tangible and intangible benefits. Demirbilek gave the example of BTC where Turkey had a 6.5% share through TPAO. Hellman repeated the USG offer to join bilateral or trilateral meetings if that would be helpful. He told the Minister that Azerbaijan had been slow in responding to Turkey's invitation to MOF Sharifov, because it is not sure what it wants to say.

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IEA Convened Multi-lateral Working Group - and Iraq  
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16. (C) Hellman informed the Minister that the IEA convened multi-lateral southern corridor working group would be postponed to January to allow time to adequately prepare and to assure a successful outcome. He again urged that Turkey and Azerbaijan meet in advance of this meeting.

17. (C) We informed the Minister that we were working on creating a U.S.-Turkey-Iraq gas working group. The early November Turkey-Iraq Joint Economic Commission did not seem to be the appropriate venue, so we would work on a stand-alone meeting of experts, perhaps in Istanbul, and perhaps including U.S. energy experts based in Baghdad. Given the positive reaction to the Coote briefing, another idea would be bringing an energy analyst to give a briefing on Iraq oil and gas potential.

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TDA Projects Advancing the Corridor  
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18. (C) Hellman said TDA had approved the Henry Hub, Louisiana study tour (as a "good" energy hub example) for six GOT officials (and one from the Embassy) at a time to be determined this year. U/S Demirbilek suggested three Energy

Ministry officials, two from BOTAS, and one from TPAO as participants. Hellman stated that TDA could provide technical assistance on establishing an IGA for an effective transit regime. He admitted that open third party access could be problematic with respect to Iran, so he advocated an IGA and a joint stock company approach, perhaps including a "netback" pricing arrangement, to satisfy Turkey's desire for a stake in the business and information on price. Finally, Hellman reminded the Minister that in 2007 TDA would complete a pre-feasibility study for a trans-Caspian Pipeline (TCP) for oil and/or gas focused first on Kazakhstan, with later potential linkage to Turkmenistan. TDA would be seeking assistance from the GOT and others for participants for a technical advisory group.

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Samsun-Ceyhan Bosphorus Bypass  
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¶9. (C) The Minister repeated calls for support for Turkey's preferred Bosphorus bypass project - Samsun-Ceyhan, arguing that tanker traffic in the Turkish Straits was at capacity and at risk for a significant accident. Hellman urged the Minister to promote the project in a more commercial way, noting that it was twice the distance of Burgos-Alexandropolis and was not now economic without oil throughput commitments. He also reminded the Minister of the classic "free rider" dilemma that made the economics even more difficult. The Minister also asked the USG to share all the information it had about Caspian and Iraqi reserves, as well as information on Turkey's domestic oil and gas potential.

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Other Meetings on Gas and Georgia  
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¶10. (C) In a separate meeting, BP Country Manager Djan Suphi insisted that Turkey is not ready to accept South

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Caucasus Pipeline gas, countering BOTAS' claims that it is ready or imminently ready. The BP official told us that the metering station, block valves, and significant sections of the pipeline were still construction zones. He admitted that Shah Deniz was not ready to deliver volumes. BP and BOTAS separately told us that they were negotiating a flexible "run-in" period through the balance of this year for the transition to operation.

¶11. (C) Joining us after participating in a separate meeting of the Turkish and Georgian Energy Ministers, Turkish officials related the Georgian's fears that Russia planned to sabotage Georgia's winter energy security - even to the point of aiming to change the government. BOTAS Dep DG Sakir Arikan said Turkish leaders had committed to help Georgia, but Turkey politically cannot sell its share of Shah Deniz gas at less than the price of its most expensive gas, about \$270. Hellman emphasized that Turkey, Azerbaijan, and Georgia should meet as soon as possible to seek a united front for addressing the coming winter. He said the discussion should focus more on volumes, rather than price, assuming that the Georgians would ultimately pay what they have to pay. Both Azerbaijan and Georgia may need contingency plans such as power plant conversion to fuel oil. Hellman also encouraged them to address a strategy for the three countries to work together over the next two years until Azerbaijan can reduce its dependence on Russian gas, thereby reducing Russian leverage.

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Guler's Grave Concern about Russian Behavior  
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¶12. (C) In a separate one-on-one meeting with Ambassador, Guler expressed grave concern about Russian behavior. He

lamented that the combined gas needs of Turkey, Georgia and Azerbaijan vastly exceed supply, and he worried about what would happen this coming winter. He said Turkey is very uncertain how to proceed and appealed for U.S. leadership. Ambassador identified the various actions underway (as described above), urged Turkish leadership in the region toward ensuring that short-term decisions did not unduly undermine longer term objectives, and made clear that the USG is seized of the broader issues. He highlighted Hellman's involvement as reflecting our intention to be more engaged.

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WILSON